



SOMERVILLE INDUSTRIES LIMITED

1970 annual report





SOMERVILLE INDUSTRIES LIMITED



Directors

J. G. Church
G. E. Creber
F. C. Lennox
I. A. MacDonald
W. Garfield Weston

Officers

F. C. Lennox	Chairman and President
J. G. Church	Executive Vice-President
I. A. MacDonald	Vice-President, Packaging
A. B. Van der Ende	Secretary-Treasurer

Management Committees

Head Office:

F. C. Lennox	Chairman
J. G. Church	Executive Vice-President
I. A. MacDonald	Vice-President, Packaging
A. B. Van der Ende	Secretary-Treasurer
T. E. White	Manager, Industrial and Public Relations

Packaging:

I. A. MacDonald	Chairman
G. J. Deignan	General Manager, Consolth Division
E. J. Dewhurst	General Manager, Canadian Folding Cartons Division
K. W. Keene	General Manager, London Division & Winnipeg

Special Products:

J. G. Church	Chairman
J. C. Bacon	General Manager, Panel Division
R. W. Bastien	General Manager, Display Division
B. A. Cooper	General Manager, Plastics Division
B. L. Morin	General Manager, Games Division

Transfer Agent

The Canada Trust Company
Toronto, London, Montreal, Winnipeg and Vancouver

TO THE SHAREHOLDERS:

Summary

In 1970, total Company sales were \$44,000,000, a decrease of \$1,300,000 from 1969. Net income from operations, after an extraordinary expense due to the closing of the Strathmore plant, was \$1,389,000, as opposed to \$1,528,000 in 1969. This drop in sales and profits is entirely attributable to the prolonged strike at General Motors, which adversely affected our Automotive Panel plants in Toronto and Windsor. All other segments of the business showed improvement.

Operations **PACKAGING**

The Packaging and Related Products Divisions showed moderate increases in both sales and profits. Due to the overcapacity that exists in the Canadian packaging industry, it is most difficult to keep profits in line with rising costs.

AUTOMOTIVE PANEL DIVISION

As previously mentioned, the prolonged strike at General Motors had disastrous effects on our plastic and trim plants in Toronto and Windsor. Sales were off some \$1,700,000, which resulted in very heavy losses in this area. We anticipate that these plants will show substantial improvement in 1971. We have recently taken active steps to streamline these operations, in order to reduce costs and improve efficiency.

Along with many other industries, the unpegging of the Canadian dollar places us in an unenviable position opposite competition from large American manufacturers of the same products.

DISPLAY DIVISION

The Display Division recorded a substantial increase in sales, with a corresponding improvement in profitability. Strengthening of personnel, both in plant and sales, should bring still further improvement in the future.

GAMES DIVISION

In February, 1970, a decision was reached to close our Strathmore Division, which manufactured Christmas Crackers and Novelties. This was disposed of with a minimal capital loss. Despite this loss in sales, the Games Division was able to maintain profits at approximately the same level as in 1969. The revised sales organization, set up at the beginning of the year, proved most satisfactory, and we are looking forward to continued improvement.

PLASTICS DIVISION

Continued investment in modern equipment, combined with intensive selling effort and rigid cost control, resulted in improved performance in all areas of the Plastics Division. Indications are for a continuation of this very satisfactory trend.

MASTICO INDUSTRIES LIMITED

The plant of Mastico Industries Limited in Tillsonburg, a 50% owned subsidiary manufacturing sound-deadening material for the automotive industry, had an excellent year. Prospects for 1971 are most encouraging.

Properties and Equipment

No major expansions or acquisitions occurred during the year, except for the closing of the Strathmore Division previously mentioned. Capital expenditures, at \$700,000, were somewhat lower than originally forecast, due to the tight money situation existing during the year. Nearly all of this was expended on new equipment at various plants. It is anticipated that 1971 expenditures will be in excess of this figure.

Working Capital

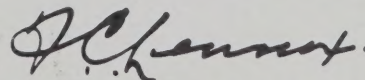
Working Capital increased from \$4,774,000 to \$5,127,000, up \$353,000. Current assets at the end of 1970 stood at \$13,795,000, as against current liabilities of \$8,668,000, a ratio of 1.6 to 1. Both accounts receivable and inventories are well under control.

General

Effective in October, 1970, several new executive appointments were made. Mr. J. C. Bacon was appointed General Manager of the Automotive Panel Division. Mr. B. A. Cooper succeeded Mr. Bacon as General Manager of the Plastics Division. Mr. L. A. Biddie was appointed Ontario Sales Manager, Mr. P. R. Tipping, Sales Manager of Western Ontario, and Mr. J. J. Fournier, Sales Manager for Quebec and the Maritimes.

During the year, six separate union contracts were negotiated. The increasing cost of salaries, wages, and fringe benefits is of growing concern, as productivity and selling prices are not keeping pace. However, we are looking forward to 1971 with cautious optimism. A reversal in the trend of the Automotive Division should help our overall sales and profit picture. We hope to participate in the general upturn in the Canadian economy, which we all expect will take place in the coming year.

It is again a pleasure to express thanks to our employees, customers, and suppliers, for their help and cooperation throughout the year, and to solicit their continued support in the future.



Chairman and President



SOMERVILLE INDUSTRIES LIMITED and its wholly owned subsidiaries

CONSOLIDATED STATEMENT OF INCOME

for the year ended December 31, 1970

(in thousands of dollars)

	1970	1969
NET SALES	\$43,993	\$45,300
Costs, excluding expenses shown below	39,338	40,335
OPERATING INCOME , before undernoted items	\$ 4,655	\$ 4,965
Deduct:		
Depreciation	\$ 1,071	\$ 1,027
Interest on long term debt	128	145
Other interest	512	514
	\$ 1,711	\$ 1,686
Operating income before income taxes	\$ 2,944	\$ 3,279
Taxes on income — current	\$ 1,571	\$ 1,905
— deferred	(42)	(154)
	\$ 1,529	\$ 1,751
Income from operations before extraordinary item	\$ 1,415	\$ 1,528
Extraordinary Item:		
Loss on closing of Strathmore division (net of income taxes)	26	—
NET INCOME FOR THE YEAR	\$ 1,389	\$ 1,528

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1970

(in thousands of dollars)

	1970	1969
RETAINED EARNINGS AT BEGINNING OF YEAR	\$ 8,459	\$ 8,237
Add:		
Net income for the year	1,389	1,528
	\$ 9,848	\$ 9,765
Deduct:		
Dividends — preferred shares	\$ 106	\$ 106
— common shares	950	1,200
	\$ 1,056	\$ 1,306
RETAINED EARNINGS AT END OF YEAR	\$ 8,792	\$ 8,459

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 1970

(in thousands of dollars)

CURRENT ASSETS	1970	1969
Cash	\$ 8	\$ 10
Accounts receivable (note 1)	4,216	4,516
Inventories (note 2)	9,310	9,145
Prepaid expenses	261	220
	<u>\$13,795</u>	<u>\$13,891</u>
CURRENT LIABILITIES		
Bank Advances	\$ 1,408	\$ 1,139
Accounts payable and accrued liabilities (note 1)	1,790	2,217
Taxes payable	224	245
Dividends payable	26	26
Advances from parent company	5,000	5,300
Long term debt payable within one year	220	190
	<u>\$ 8,668</u>	<u>\$ 9,117</u>
WORKING CAPITAL	<u>\$ 5,127</u>	<u>\$ 4,774</u>
SINKING FUND RE PREFERRED SHARES — government and industrial bonds at market values (cost \$125,000, 1969 — \$130,000)	<u>\$ 100</u>	<u>\$ 100</u>
INVESTMENTS — Shares in 50% owned company — Mastico Industries Limited — at equity value	<u>\$ 382</u>	<u>\$ 381</u>
DEFERRED RECEIVABLES	<u>\$ 7</u>	<u>\$ 14</u>
FIXED ASSETS (note 3)	<u>\$21,822</u>	<u>\$21,370</u>
Less: Accumulated depreciation	<u>10,649</u>	<u>9,782</u>
	<u>\$11,173</u>	<u>\$11,588</u>
TOTAL ASSETS, LESS CURRENT LIABILITIES	<u>\$16,789</u>	<u>\$16,857</u>
LONG TERM DEBT (note 4)	<u>\$ 1,681</u>	<u>\$ 2,017</u>
DEFERRED INCOME TAXES	<u>1,897</u>	<u>1,946</u>
	<u>\$ 3,578</u>	<u>\$ 3,963</u>
NET ASSETS (being Shareholders' equity)	<u>\$13,211</u>	<u>\$12,894</u>
SHAREHOLDERS' EQUITY		
Capital stock (note 5)	\$ 2,245	\$ 2,245
Retained earnings (note 6)	8,792	8,459
Excess of appraised value of fixed assets over cost, less sundry charges	<u>2,174</u>	<u>2,190</u>
TOTAL SHAREHOLDERS' EQUITY	<u>\$13,211</u>	<u>\$12,894</u>

On behalf of the Board:

F. C. Lennox, Director

J. G. Church, Director



SOMERVILLE INDUSTRIES LIMITED and its wholly owned subsidiaries

NOTES TO CONSOLIDATED STATEMENTS

1. Accounts receivable and accounts payable:

Included in accounts receivable is an amount of \$241,000 (287,000 in 1969) owing from and in accounts payable an amount of \$23,000 (\$10,000 in 1969) owing to affiliated and associated companies.

(in thousands of dollars)

2. Inventories:

The value of inventories is shown at the lower of cost and net realizable value.

	1970	1969
Raw material, goods in process and supplies	\$ 4,883	\$ 4,780
Finished goods	4,427	4,365
	<u>\$ 9,310</u>	<u>\$ 9,145</u>

3. Fixed assets:

The value of buildings and equipment is shown at cost or based on appraisals by Cooper Appraisals Limited made in 1951 and 1955. Other fixed assets and additions subsequent to the appraisals have been shown at cost.

	1970	1969
Land and buildings	\$ 5,828	\$ 5,847
Machinery and equipment	15,994	15,523
	<u>\$21,822</u>	<u>\$21,370</u>

4. Long term debt:

First mortgage bonds: Authorized \$10,000,000

	1970	1969
Series A — 5¼ % sinking fund, due October 15, 1973, outstanding	\$ 667	\$ 857
Less: Current sinking fund provision and cash in the hands of the trustee (net of bonds purchased in advance)	211	190
	<u>\$ 456</u>	<u>\$ 667</u>
Series B — 6% sinking fund, due June 15, 1977, outstanding	\$ 1,234	\$ 1,350
Less: Current sinking fund provision (net of bonds purchased in advance)	9	—
	<u>\$ 1,225</u>	<u>\$ 1,350</u>
Total long term debt	<u>\$ 1,681</u>	<u>\$ 2,017</u>

Maturities and sinking fund requirements during the next five fiscal years are as follows: 1971, \$220,000; 1972, \$347,000; 1973, \$359,000; 1974, \$125,000; 1975, \$125,000.

5. Capital stock:

Authorized: 100,000 cumulative, redeemable preferred shares, par value \$50 each, issuable in series, less 2,220 redeemed. 500,000 common shares, without par value.

	1970	1969
Issued: 37,780 cumulative \$2.80 sinking fund preferred shares, 1953 series, redeemable at \$51 per share	\$ 1,889	\$ 1,889
356,300 common shares	356	356
	<u>\$ 2,245</u>	<u>\$ 2,245</u>

6. Long term leases:

Long term leases entered into by the companies extend into the year 1988. Under the terms of such leases aggregate rentals amount to approximately \$2,214,000. Maximum annual rentals payable thereunder for the years 1971 to 1975 are approximately \$150,000.

7. Statutory Information:

	1970	1969
Number of Directors	5	7
Aggregate Remuneration as Directors	\$ Nil	\$ Nil
Number of Officers	4	5
Aggregate Remuneration as Officers	\$ 215	\$ 197
Number of Officers who are Directors	3	4

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended December 31, 1970

(in thousands of dollars)

SOURCE OF FUNDS:	1970	1969
Net income for the year	\$ 1,389	\$ 1,528
Depreciation	1,071	1,027
Deferred income taxes	(49)	(154)
Sundry items (net)	6	15
	<u>\$ 2,417</u>	<u>\$ 2,416</u>
 APPLICATION OF FUNDS:		
Purchase of fixed assets (net of disposals)	\$ 672	\$ 1,000
Investment in shares of 50% owned company — Mastico Industries Limited	—	256
Dividends to shareholders — preferred	106	106
— common	950	1,200
Bond sinking fund instalments	336	325
	<u>\$ 2,064</u>	<u>\$ 2,887</u>
 Increase (decrease) in working capital	\$ 353	\$ (471)
Working capital at beginning of year	4,774	5,245
WORKING CAPITAL AT END OF YEAR	<u>\$ 5,127</u>	<u>\$ 4,774</u>

AUDITORS' REPORT

To the Shareholders of Somerville Industries Limited:

We have examined the consolidated statement of financial position of Somerville Industries Limited and its wholly owned subsidiaries as at December 31, 1970 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Canada
January 19, 1971

CLARKSON, GORDON & CO.
Chartered Accountants

SOMERVILLE DIRECTORY

- **Head Office and London Division**
P.O. Box 5760, Terminal 'A', London, Ontario
- **Winnipeg Plant**
1885 Sargent Avenue, Winnipeg 21, Manitoba
- **Consolth Division**
865 Hodge Street, Montreal 9, Quebec
- **Canadian Folding Cartons Division**
188 Cartwright Avenue, Toronto 19, Ontario
- **Panel Division — Scarborough**
20 Bertrand Avenue, Scarborough, Ontario
- **Panel Division — Windsor**
2744 Edna Street, Windsor, Ontario
- **Somerville Automotive Trim Division**
2744 Edna Street, Windsor, Ontario
- **Display Division**
11 Lesmill Road, Don Mills, Ontario
- **Games Division**
P.O. Box 5760, Terminal 'A', London, Ontario
- **Somerville Plastics Division**
376 Orenda Road, Bramalea, Ontario

Sales Offices situated at all manufacturing divisions and at the following locations:

- Hamilton: 477 Main Street East
- Guelph: 21 Oak Street (P.O. Box 331)
- Moncton: P.O. Box 1106
- Peterborough: 166 Brock Street (P.O. Box 325)

Representatives:

- Newfoundland: N. C. Hutton, Ltd., St. John's
- Quebec: Marcel Messely, Quebec City
- Ontario: Mid-West Paper Limited, Thunder Bay
Snelling Paper Sales Limited, Ottawa
- Prairie Provinces: Crown Zellerbach Canada Ltd., Winnipeg
Mid-West Paper Limited, Winnipeg
Canadian International Paper Company, Winnipeg

